

**MISSOURI PUBLIC ENTITY RISK  
MANAGEMENT FUND**

Jefferson City, Missouri

**INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2008 and 2007

## **TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1
MANAGEMENT'S DISCUSSION & ANALYSIS.....	2 - 6
FINANCIAL STATEMENTS:	
Balance Sheets.....	7
Statements of Operations and Changes in Retro Return Reserve.....	8
Statements of Cash Flows.....	9
Notes to the Financial Statements.....	10 - 19
SUPPLEMENTAL INFORMATION:	
1999-2008 Loss Development Information.....	20 - 21
Reconciliation of Claims Liability by Type of Contract.....	22



# Evers & Company, CPA's, L.L.C.

Certified Public Accountants and Consultants

Elmer L. Evers  
Jerome L. Kauffman  
Richard E. Elliott  
Dale A. Siebeneck  
Keith L. Taylor  
Jo L. Moore

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
**Missouri Public Entity Risk Management Fund**  
Jefferson City, Missouri:

We have audited the accompanying financial statements of the business-type activities of **Missouri Public Entity Risk Management Fund (MOPERM)**, as of and for the years ended December 31, 2008 and 2007, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the **Missouri Public Entity Risk Management Fund**, as of December 31, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, ten year loss development information, and reconciliation of claims liabilities by type of contract on pages 2 through 6 and 20 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Evers & Company, CPA's, LLC*

EVERS & COMPANY, CPA's, L.L.C.  
Jefferson City, Missouri

March 16, 2009

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### (UNAUDITED)

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

#### **Fund Accounting**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is not considered to be a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

*Proprietary funds.* Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The financial statements, in addition to management's discussion and analysis, are comprised of the balance sheet; the statement of operations and changes in retro return reserve; the statement of cash flows and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The balance sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserve. The retro return reserve of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserve measure whether MOPERM's financial position is improving or deteriorating.

The statement of operations and changes in retro return reserve presents information detailing the revenues and expenses that resulted in the change in retro return reserve that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual

cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by fiscal year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statement of operations and changes in retro return reserve.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

### Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ended December 31, 2008 and 2007. Additional details are available in the accompanying financial statements.

	2008	2007	Increase (Decrease)
<b>ASSETS</b>			
Cash and investments	\$ 95,361,888	\$ 85,475,887	\$ 9,886,001
Receivables	1,034,384	1,801,359	(766,976)
Capital assets	1,152,260	1,193,041	(40,780)
Other	14,592	13,236	1,356
Total assets	<u>\$ 97,563,124</u>	<u>\$ 88,483,523</u>	<u>\$ 9,079,601</u>
<b>LIABILITIES</b>			
Loss and loss adjustment expense	\$ 48,387,154	\$ 45,211,346	\$ 3,175,808
Other	8,568,371	10,263,235	(1,694,863)
Total Liabilities	<u>56,955,525</u>	<u>55,474,581</u>	<u>1,480,944</u>
<b>RETRO RETURN RESERVE</b>			
Designated catastrophic reserves	25,103,349	22,846,683	2,256,666
Invested in capital assets	1,152,260	1,193,041	(40,780)
Undesignated	14,351,990	8,969,218	5,382,771
Total retro return reserve	<u>40,607,599</u>	<u>33,008,942</u>	<u>7,598,657</u>
Total liabilities and retro return reserve	<u>\$ 97,563,124</u>	<u>\$ 88,483,523</u>	<u>\$ 9,079,601</u>

- MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. Effective July 1, 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM increased its overall membership by 15 members during 2008, compared to a 5 member increase during 2007. The additional

members added in 2008 were relatively small entities except for one large county, resulting in an overall decrease of contribution of \$404,939. Even though the overall contribution collected decreased, total assets increased by \$9,079,601 in 2008 to \$97,563,124. The total increase in assets during 2007 was approximately \$15,927,695. Net loss and loss expense paid in 2008 was \$4,128,152 more than the amount paid in 2007. During 2008, receivables decreased by \$766,976. The majority of this decrease is due to a payment of approximately \$537,000 received in 2008 from a previous excess liability insurance carrier. The receivable from the excess liability carrier as of December 31, 2007 approximated \$855,000, of which \$318,000 was negotiated as non collectible. Capital assets decreased in 2008 due to the retirement of some software and intangible assets.

- Total liabilities increased by \$1,480,944 in 2008 to \$56,955,525. The increase in liabilities was primarily associated with an increase in loss and loss adjustment reserves for the liability line of business. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. The majority of the decrease in other liabilities is the decrease in collection of unearned member contribution. MOPERM has no long term debt.
- Retro Return Reserve for 2008 increased by net income of \$7,698,657. Since its inception, MOPERM has refunded over \$7 million of contributions to the participating members. MOPERM's Board of Trustees did not declare a dividend in 2008.

	2008	2007	Increase (Decrease)
<b>OPERATING REVENUES</b>			
Contributions	\$ 21,944,164	\$ 22,349,103	\$ (404,939)
Investment income	4,486,751	3,592,599	894,152
Other income (expense)	62,896	4,323	58,573
Total operating revenues	26,493,811	25,946,025	547,786
<b>OPERATING EXPENSES</b>			
Loss and loss adjustment expense	15,465,874	14,886,164	579,710
Excess insurance premiums	1,170,558	1,378,279	(207,721)
General and administrative	3,159,917	2,995,868	164,049
Total operating expenses	19,796,349	19,260,311	536,038
Net operating income	6,697,462	6,685,714	11,748
Unrealized gain on investments	901,195	1,140,977	(239,782)
Net income	\$ 7,598,657	\$ 7,826,691	\$ (228,034)

- Contributions earned for 2008 decreased by \$404,939. The property line of business had an approximate increase of \$88,357 which was attributed to the addition of new members and a slight rate increase. Liability contribution was a negative \$493,296 for 2008 due to a slight rate decrease and the loss of some mid size members.
- MOPERM has invested approximately \$87.2 million, primarily in U.S. Government Agency Securities with final maturities of seven years or less with a one time call. Investment income consists of interest income, amortization of premium and discounts on bonds, and realized gains and losses on securities. Investment income for 2008 increased by \$894,152 due to an increase in total investments held by MOPERM. Because of the changes in interest rates in the investment market, MOPERM experienced an unrealized gain on investments of \$901,195 during 2008. Also included in

investment income for 2008 was the interest of \$508,452 from the liability excess insurance company for delayed payment on claims to MOPERM.

- Loss and loss adjustment expense increased by \$579,710 in 2008. MOPERM paid out approximately \$4.1 million more in claims in 2008 than 2007.
- Excess insurance premiums decreased by \$207,721 in 2008. In 2008, MOPERM experienced decreased rates on earthquake excess in the property line of business. The premium for excess insurance for property increases/decreases as members are added or non-renewed.
- General and administrative expenses approximated 14.4% and 13.4% of total contributions earned for 2008 and 2007, respectively. These expenses increased by \$164,048 in 2008. The majority of this increase was due to increases in salaries and benefits, maintenance services and loss control services offset by decreases in travel, commission expense, other outside services and depreciation.

## **FINANCIAL SUMMARY**

In 2008, MOPERM increased its overall membership but had a decrease of \$405,000 in contribution. The new members added were relatively small entities while the non renewals were mid size entities. The liability program had a slight rate decrease while the property program had a slight increase netting to an overall decrease in rates of about 2.2%. MOPERM had a total of 936 contributors as of December 31, 2008.

Net income decreased by \$228,034. This is due primarily to the increase in total loss and loss expense and the reduction in contribution collected. Other income increased in 2008 while the unrealized gain on investments decreased. The general and administrative expenses increased slightly from 2007. Retro return reserves increased by \$7,598,657 in 2008 totaling \$40,607,599. Overall, the financial position of MOPERM remains very stable.

## **Economic Environment and Next Year's Budget and Rates**

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

The 2009 estimated contribution was down about 40% compared to the final 2008 contribution amount. The decrease was the anticipation of losing many of our mid size and some of the larger members to new competitors. Several companies have entered the public entity market sector where there has been little interest the past few years. The total operating expenses are budgeted to decrease about 35% to \$2.8 million over the final 2008 operating expenses of \$4.3 million. The largest increments are commission expense and excess insurance premiums that increase and decrease with contribution written. The property program will be administered in-house, eliminating the underwriting administration fee. The total operating expenses are about 22% of total budgeted contribution. The loss and loss expense percentage remains constant at 75% of budgeted contribution each year. There have been no major insurance program changes for 2009.

### **Contacting the Fund's Financial Management**

This financial report is designed to provide our members and the public with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the contribution it receives. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at PO Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail [Cathy-Schulte@moperm.com](mailto:Cathy-Schulte@moperm.com).



**BASIC  
FINANCIAL  
STATEMENTS**

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
BALANCE SHEETS**

**DECEMBER 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,134,916	\$ 6,106,590
Investments	87,226,972	79,369,297
Deposits and accounts receivable other than contributions	92,794	1,053,606
Accrued interest receivable	934,223	732,244
Contributions in the course of collection	7,367	15,510
Prepaid expenses	14,592	13,235
Capital assets (net of accumulated depreciation of \$1,380,826 in 2008 and \$1,382,244 in 2007)	<u>1,152,260</u>	<u>1,193,041</u>
<b>Total assets</b>	<u>\$ 97,563,124</u>	<u>\$ 88,483,523</u>
<b>Liabilities and Retro Return Reserve</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 48,387,154	\$ 45,211,346
Advance contributions	8,446,216	10,094,779
Accounts payable and accrued expenses	<u>122,155</u>	<u>168,456</u>
<b>Total liabilities</b>	<u>56,955,525</u>	<u>55,474,581</u>
<b>Retro return reserve (unrestricted):</b>		
Designated catastrophic reserves	25,103,349	22,846,683
Invested in capital assets	1,152,260	1,193,041
Undesignated	<u>14,351,990</u>	<u>8,969,218</u>
<b>Total retro return reserve (unrestricted)</b>	<u>40,607,599</u>	<u>33,008,942</u>
<b>Total liabilities and retro return reserve</b>	<u>\$ 97,563,124</u>	<u>\$ 88,483,523</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
STATEMENTS OF OPERATIONS AND CHANGES  
IN RETRO RETURN RESERVE**

**FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Revenues:		
Contributions	\$ 21,944,164	\$ 22,349,103
Investment income	4,486,751	3,592,599
Other income (expense)	<u>62,896</u>	<u>4,323</u>
Total operating revenues	<u>26,493,811</u>	<u>25,946,025</u>
Expenses:		
Loss and loss adjustment expenses	15,465,874	14,886,164
Excess insurance premiums	1,170,558	1,378,279
General and administrative	<u>3,159,917</u>	<u>2,995,868</u>
Total operating expenses	<u>19,796,349</u>	<u>19,260,311</u>
Net operating income	6,697,462	6,685,714
Unrealized gains on investments	<u>901,195</u>	<u>1,140,977</u>
Net income	7,598,657	7,826,691
Retro return reserve, beginning of year	<u>33,008,942</u>	<u>25,182,251</u>
Retro return reserve, end of year	<u>\$ 40,607,599</u>	<u>\$ 33,008,942</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND**  
**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Contributions collected	\$ 20,303,744	\$ 23,706,614
Loss and loss adjustment expenses paid	(11,329,254)	(6,950,121)
Payments to suppliers and excess insurer	(3,710,901)	(3,539,027)
Payments to employees	(587,080)	(521,578)
Investment income received	4,099,736	3,373,998
Other income (loss)	62,896	4,675
Net cash provided by operating activities	<u>8,839,141</u>	<u>16,074,561</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	<u>(39,370)</u>	<u>(33,272)</u>
Cash flows from investing activities:		
Proceeds from matured investments	133,814,888	97,793,396
Investments purchased	<u>(140,586,332)</u>	<u>(109,017,628)</u>
Net cash used in investing activities	<u>(6,771,444)</u>	<u>(11,224,232)</u>
Change in cash and cash equivalents	2,028,327	4,817,057
Cash and cash equivalents, beginning of year	<u>6,106,589</u>	<u>1,289,532</u>
Cash and cash equivalents, end of year	<u>\$ 8,134,916</u>	<u>\$ 6,106,589</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	<u>\$ 7,598,657</u>	<u>\$ 7,826,691</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,151	93,428
Realized losses on capital assets	-	352
Accretion of discounts and amortization of premiums, net	(92,135)	(146,176)
Realized gains on investments	(92,901)	-
Unrealized gains on investments	(901,194)	(1,140,977)
Changes in certain assets and liabilities:		
(Increase) decrease in deposits and accounts receivable other than contributions	960,812	1,211,795
(Increase) decrease in accrued interest receivable	(201,979)	(72,426)
(Increase) decrease in contributions in course of collection	8,143	(17)
(Increase) decrease in prepaid expenses	(1,357)	200,887
Increase (decrease) in loss and loss adjustment expense reserves	3,175,808	6,724,248
Increase (decrease) in advance contributions	(1,648,563)	1,357,528
Increase (decrease) in accounts payable and accrued expenses	<u>(46,301)</u>	<u>19,228</u>
Net adjustments	<u>1,240,484</u>	<u>8,247,870</u>
Net cash provided by operating activities	<u>\$ 8,839,141</u>	<u>\$ 16,074,561</u>

The accompanying notes are an integral part of these financial statements.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### 1. Reporting Entity

The Missouri Public Entity Risk Management Fund ("MOPERM") is a body corporate and politic created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State's accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. The property coverage underwriting is being administered through Arthur J. Gallagher. MOPERM had a total of 936 and 927 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2008 and 2007, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

### 2. Basis of Accounting and Summary of Significant Accounting Policies

#### Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict the Governmental Accounting Standards Board (GASB) pronouncements.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution's trust department or agent in MOPERM's name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

#### Investments

MOPERM reports investments at fair value, with the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

#### **Capital Assets**

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<b>Depreciable Life</b>
Automobiles	3 years
Equipment and leasehold improvements	5 years
Furniture and fixtures and building improvements	10 years
Building	40 years

#### **Contributions**

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

#### **Retro Return Reserve Refunds**

If collected contributions exceed total paid claims, claim expenses and operating expense in any given year, the Board of Trustees may declare a refund of the excess be made to participants who were members of MOPERM during the policy year for which a refund was declared. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

#### **Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

#### **Designated Catastrophic Reserves**

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2008 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002. Plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2008 and 2007 is \$50,059 and \$26,675, respectively. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

#### **Operating and Non-operating Income and Expenses**

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

#### **Income Taxes**

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

#### **Management's Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### **3. Deposits and Investments**

#### **Deposits**

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, MOPERM's deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of December 31, 2008 and 2007 no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in MOPERM's name.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### **NOTE 3 – Continued (Deposits and Investments)**

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2008 and 2007, the carrying amount of deposits at the financial institutions was \$(32,334) and \$2,639,733, the bank balance was \$300,703 and \$2,833,790, respectively. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2008 and \$100,000 of the bank balance was covered by federal depository insurance at December 31, 2007. At December 31, 2008 and 2007, an additional \$8,167,251 and \$3,466,857 was held in overnight repurchase agreements with a book value of \$8,167,251 and \$3,466,857. The repurchase agreements were collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. The bank overdraft of \$32,334 at December 31, 2008 is offset by the repurchase agreements as discussed above.

### **Investment Policies**

MOPERM's investment policy allows investments in: time deposits with maturity of twenty four months or less, U.S. Treasury securities and U.S. mortgage backed securities with final maturities of seven years or less, U.S. Government agency securities with final maturities of seven years or less, collateralized mortgage obligations that have a weighted average life not to exceed five years and pass the FFIEC High Risk Stress Test, commercial paper that may not exceed 180 days to maturity and repurchase agreements.

### **Investment Summary:**

The following table presents the summary of MOPERM'S investments by type at December 31, 2008 and 2007:

	2008	2007
U.S. Agencies	\$ 76,853,342	\$ 71,358,814
U.S. Government Guaranteed Mortgages	4,703,888	4,877,656
Collateralized Mortgage Obligations	5,669,742	3,132,827
	<u>\$ 87,226,972</u>	<u>\$ 79,369,297</u>

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOPERM's investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of December 31, 2008 and 2007, no single issue exceeds 5% of the portfolio, excluding U.S. government securities.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### *NOTE 3 – Continued (Deposits and Investments)*

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOPERM. At December 31, 2008 and 2007, all investments are guaranteed by the U.S. Government.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

#### **Foreign Currency Risk**

MOPERM held no foreign investments or currency as of December 31, 2008 and 2007.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

### 4. Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

Category	Balance at December 31, 2007	Additions	Deductions/ Transfers	Balance at December 31, 2008
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	39,278	5,304	58	44,524
Furniture and fixtures	92,641	9,540	-	102,181
Computer equipment and software	1,170,320	24,526	16,511	1,178,335
Automobiles	48,555	-	-	48,555
Intangible	65,000	-	65,000	-
Total capital assets	2,575,285	39,370	81,569	2,533,086
Less accumulated depreciation	1,382,244	80,151	81,569	1,380,826
Capital assets, net	\$ 1,193,041	\$ (40,781)	\$ -	\$ 1,152,260

Capital asset activity for the year ended December 31, 2007 was as follows:

Category	Balance at December 31, 2006	Additions	Deductions/ Transfers	Balance at December 31, 2007
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	47,816	9,915	18,453	39,278
Furniture and fixtures	89,526	3,115	-	92,641
Computer equipment and software	1,175,393	4,917	9,990	1,170,320
Automobiles	49,630	15,325	16,400	48,555
Intangible	65,000	-	-	65,000
Total capital assets	2,586,856	33,272	44,843	2,575,285
Less accumulated depreciation	1,333,307	93,428	44,491	1,382,244
Capital assets, net	\$ 1,253,549	\$ (60,156)	\$ 352	\$ 1,193,041

Total depreciation expense for the years ended December 31, 2008 and 2007 was \$80,151 and \$93,428, respectively.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

### 5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	2008	2007
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$1,322,275 in 2008 and \$2,496,199 in 2007	\$ 45,211,346	\$ 38,487,098
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	15,511,065	14,958,951
Provision for insured events – prior years	(45,191)	(72,787)
Total incurred loss and loss adjustment expenses	15,465,874	14,886,164
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	3,830,596	2,871,831
Loss and loss adjustment expenses attributable to insured events – prior years	8,459,470	5,290,085
Total payments	12,290,066	8,161,916
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$586,424 in 2008 and \$1,322,275 in 2007	\$ 48,387,154	\$ 45,211,346

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

### 6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri for all costs of administration, including salary costs of \$591,697 for 2008 and \$521,757 for 2007 and pension costs of \$72,026 for 2008 and \$64,100 for 2007. The State of Missouri's other post employment benefit package is subject to the measurement and disclosure requirements of GASB 45. Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement. All

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

### *NOTE 6 – Continued (General and Administrative Expenses)*

property business is required to be written through agents where liability business can be written direct or through an agent. Agent commission expense totaled \$1,728,476 and \$1,755,995 for the years ended December 31, 2008 and 2007, respectively. Loss control services, provided by an outside consultant, approximated \$103,726 and \$99,490 for the years ended December 31, 2008 and 2007, respectively.

### 7. **Retro Return Reserve Refunds**

The Board of Trustees of MOPERM did not declare retro return reserve refunds during 2008 or 2007. As of December 31, 2008 and 2007, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds Declared and Paid Prior to 2007	Refunds Declared and Accrued During 2008 and 2007	Refunds Total Declared	Percentage of Contributions Refunded
1987	\$ 1,391,082	\$ -	\$ 1,391,082	85%
1988	2,074,331	-	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1992	643,707	-	643,707	22%
1994	155,373	-	155,373	3%
1995	1,175,375	-	1,175,375	20%
1996	129,080	-	129,080	2%
	<u>\$ 7,021,478</u>	<u>\$ -</u>	<u>\$ 7,021,478</u>	

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### 8. Excess Insurance

MOPERM has maintained various excess insurance coverage with outside insurance carriers for the liability program. From January 1, 1989 through December 31, 1995, coverage was provided on a claims made basis. From December 31, 1995 through July 7, 2002, coverage was provided on an occurrence basis.

During the period from December 31, 1995 through July 7, 2002, the excess liability policy provided coverage of \$100,000 for each occurrence or wrongful act in excess of a \$900,000 self-insured retention limit and an aggregate limit of \$3,000,000 based on a minimum underlying self-insured retention of \$6,000,000.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

Effective July 1, 2003, excess insurance for the property program was purchased with outside carriers.

The property excess policy, with Allianz Insurance Company, provides coverage of \$200,000,000 for each occurrence. MOPERM's 2008 and 2007 retention per occurrence was \$50,000, except wind and hail that has \$100,000 retention per occurrence, with no annual aggregate. The boiler and machinery excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence for 2008 and 2007. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for both 2008 and 2007.

### 9. Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

---

### 10. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of such litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

### 11. Other Receivables

During 2004, MOPERM received a court judgment against a prior excess liability insurance carrier regarding coverage on prior years' claims. Based upon the court judgment, MOPERM has recorded an excess insurance recoverable and related accrued interest totaling \$2,484,230 as of December 31, 2005. \$2,131,286 of this receivable is included in accounts receivable on the December 31, 2006 balance sheet. In 2007, MOPERM received payments of \$1,276,345 from the excess liability insurance carrier. This payment reduced the accounts receivable to \$854,941 as of December 31, 2007. The accrued interest receivable as of December 31, 2007 remains at \$67,635. An audit was conducted in 2007 by the excess carrier to try to come to an agreement on amounts due to MOPERM. In 2008, MOPERM agreed to the amount of \$1,045,731 which includes \$508,458 for accrued interest and \$537,273 the balance of unpaid claims in the excess layer for various policy years. The \$1,045,725 was received by MOPERM on March 19, 2008.

# **SUPPLEMENTAL INFORMATION**

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
SUPPLEMENTAL SCHEDULE OF 1999-2008  
LOSS DEVELOPMENT INFORMATION**

**DECEMBER 31, 2008**

---

The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2008. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's cumulative contribution refunds for each policy year.
- (4) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (5) The cumulative net amounts paid as of the end of successive years for each policy year.
- (6) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (7) Each policy year's incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (8) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 4) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT

## SUPPLEMENTAL SCHEDULE OF 1999-2008 LOSS DEVELOPMENT INFORMATION, CONTINUED DECEMBER 31, 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	\$ 8,160,933	\$ 8,900,923	\$ 10,320,770	\$ 11,746,288	\$ 13,758,081	\$ 19,112,502	\$ 22,356,241	\$ 24,528,670	\$ 25,941,702	\$ 26,430,915
Ceded	(70,000)	(70,000)	(70,000)	(36,233)	(58,521)	(712,488)	(990,355)	(1,119,915)	(1,378,279)	(1,170,558)
Net earned	8,090,933	8,830,923	10,250,770	11,710,055	13,699,560	18,400,014	21,365,886	23,408,755	24,563,423	25,260,357
(2) Unallocated expenses										
	994,573	1,160,371	1,332,197	1,552,038	1,795,366	2,616,855	2,796,814	3,004,756	2,995,869	3,159,917
Policy year ended:										
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	\$ 5,126,045	\$ 5,448,430	\$ 6,515,098	\$ 7,727,237	\$ 9,257,889	\$ 12,742,751	\$ 14,344,347	\$ 15,374,073	\$ 15,169,791	\$ 16,096,860
Ceded	-	-	-	-	-	(278,067)	(2,631)	(330,067)	(210,840)	(585,795)
Net incurred	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951	15,511,065
(4) Net paid losses (cumulative) as of:										
End of policy year	1,493,067	1,648,659	1,745,939	2,600,699	2,186,599	2,226,701	2,360,924	2,850,824	2,660,991	3,244,802
One year later	2,226,225	2,629,100	2,219,176	3,316,104	2,921,068	4,105,287	3,296,373	3,743,592	4,181,825	-
Two years later	3,369,015	3,756,516	3,040,750	4,736,877	4,380,519	5,686,877	5,170,224	5,263,978	-	-
Three years later	3,951,688	4,402,095	3,900,515	7,086,502	6,059,643	6,497,502	8,501,426	-	-	-
Four years later	4,554,198	4,782,322	4,508,481	8,775,277	6,286,181	7,383,707	-	-	-	-
Five years later	5,612,844	4,924,726	4,868,639	10,240,003	7,632,563	-	-	-	-	-
Six years later	5,675,870	5,079,038	4,991,468	9,920,918	-	-	-	-	-	-
Seven years later	5,792,709	5,159,859	5,040,324	-	-	-	-	-	-	-
Eight years later	5,793,278	5,163,189	-	-	-	-	-	-	-	-
Nine years later	5,797,638	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense										
	-	-	-	-	-	(569,344)	(37,479)	(730,436)	(273,351)	(585,795)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951	15,511,065
One year later	5,126,045	5,448,430	6,515,098	7,727,237	9,259,123	12,439,325	14,305,897	14,987,767	14,926,969	-
Two years later	5,126,045	5,448,430	6,515,098	9,272,684	9,259,123	12,439,325	14,288,296	14,969,152	-	-
Three years later	5,126,045	5,448,430	6,515,098	10,921,161	9,259,123	12,439,325	14,298,450	-	-	-
Four years later	5,467,782	5,448,430	6,515,098	10,921,161	9,259,123	12,439,325	-	-	-	-
Five years later	6,151,254	5,448,430	6,515,098	10,921,161	9,259,123	-	-	-	-	-
Six years later	6,151,254	5,448,430	6,515,098	10,921,161	-	-	-	-	-	-
Seven years later	6,151,254	5,448,430	6,515,098	-	-	-	-	-	-	-
Eight years later	6,151,254	5,303,138	-	-	-	-	-	-	-	-
Nine years later	6,151,254	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year										
	1,025,209	(145,292)	-	3,193,924	1,234	(25,359)	(43,266)	(74,855)	(31,982)	-

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Reconciliation of Claims Liabilities by Type of Contract For the Years Ended December 31, 2008 and 2007

The schedule below presents the changes in claims liabilities for the past two years for the Fund's two types of contracts: Liability and Property.

	Liability		Property	
	2008	2007	2008	2007
Loss and loss adjustment expense reserves, beginning of year.	\$ 44,980,765	\$ 38,286,308	\$ 230,581	\$ 200,790
Incurring loss and loss adjustment expenses:				
Provision for insured events – current year	13,785,011	14,154,983	1,726,054	803,968
Provision for insured events – prior years	(4,749)	4,912	(40,442)	(77,699)
Total incurred loss and loss adjustment expenses	13,780,262	14,159,895	1,685,612	726,269
Payments:				
Loss and loss adjustment expenses attributable to insured events – current year	2,046,369	2,087,605	1,784,227	784,226
Loss and loss adjustment expenses attributable to insured events – prior years	8,880,875	5,377,833	(421,405)	(87,748)
Total payments	10,927,244	7,465,438	1,362,822	696,478
Loss and loss adjustment expense reserves, end of year.	\$ 47,833,783	\$ 44,980,765	\$ 553,371	\$ 230,581